

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

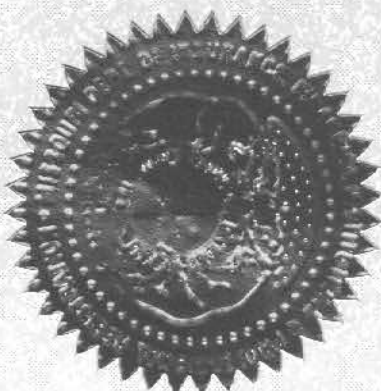
RE: Examination Report of Savers Property & Casualty Insurance Company as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of Savers Property & Casualty Insurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Savers Property & Casualty Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this October 30, 2009.

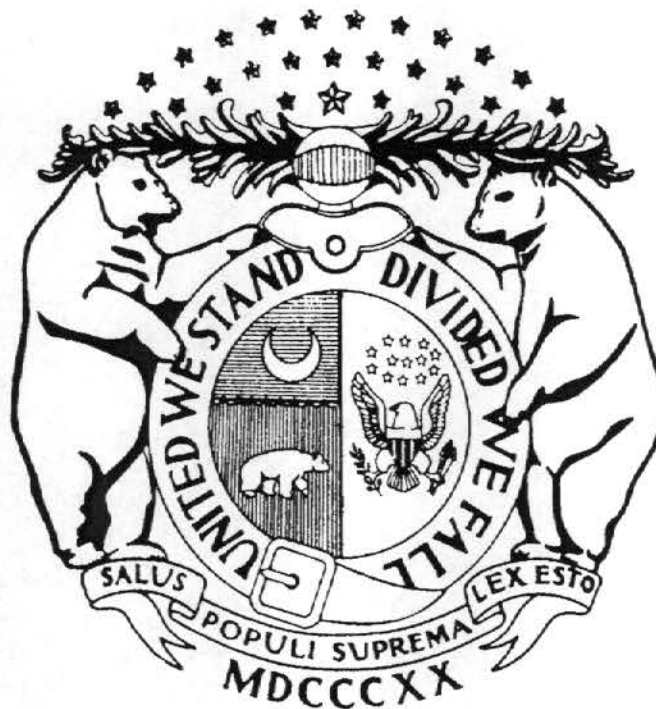


John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
ASSOCIATION FINANCIAL EXAMINATION
**SAVERS PROPERTY AND CASUALTY
INSURANCE COMPANY**

AS OF
DECEMBER 31, 2007

FILED
NOV 09 2009
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Southfield, Michigan
September 16, 2009

Honorable Merle D. Scheiber, Director
Division of Insurance State of South Dakota
Secretary, Midwestern Zone, NAIC

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman Financial Condition (E) Committee

Honorable, John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Savers Property and Casualty Insurance Company

hereinafter referred to as the "Company" or as "Savers." Its main administrative office is located at 26255 American Drive, Southfield, Michigan 48034, telephone number (248) 358-1100. This examination began on August 11, 2008 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior limited-scope association financial examination of Savers Property and Casualty Insurance Company was made as of December 31, 2005 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). The prior examination was limited in scope in that it focused on non-pooled areas of investments and income taxes as well as related party agreements and verifying that Savers received the correct percentages of pooled assets, liabilities, income and expenses. No testing of pool-related assets or liabilities was performed in connection with the prior limited-scope examination.

The current full-scope financial examination of the Company covers the period from January 1, 2006 through December 31, 2007. The current examination has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination was conducted concurrently with the examinations of the Company's direct parent, Star Insurance Company (Star) and two affiliates Williamsburg National Insurance Company (Williamsburg) and Ameritrust Insurance Corporation (Ameritrust) by the Michigan Office of Finance and Insurance Regulation (OFIR).

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This full-scope examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the independent auditor, Ernst & Young LLP, of Detroit, Michigan, for its audit covering the period from January 1, 2007 through December 31, 2007. This information included, but was not limited to, fraud risk assessments and internal control evaluations.

The examiners also relied upon information supplied by the OFIR in conjunction with its examination of Star Insurance Company and the other Michigan domiciled affiliates which are all members of a reinsurance pool together with Savers. This information included, but was not limited to, the review and substantive testing of pool-related assets and liabilities.

The issuance of our examination report was delayed due to our reliance on the OFIR for the review and testing of pool related items as our examination was not considered completed until we obtained the finalized OFIR workpapers.

Comments-Previous Examination

Listed below are notes, comments, and recommendations of the previous examination report dated as of December 31, 2005 and the subsequent response or action taken by the Company.

Corporate Records

Comment: The minutes of the Company's Board of Directors' meetings did not disclose discussion or approval of four agreements which the Company entered into with affiliates. It was recommended that the Company institute procedures to ensure that the minutes of the meetings of the Board of Directors document the Board's approval of all significant Company actions.

Response: The Board of Directors ratified all of the intercompany agreements. In the future, any substantive changes to these agreements or newly adopted intercompany agreements will be approved by the Board of Directors of Savers.

Current Finding: The Board approved all four agreements at a meeting held on March 23, 2007. The Board also discussed and approved the new Management Services Agreement which became effective during the current examination period.

Intercompany Transactions

Comment: It was found that Meadowbrook, Inc. did not charge Savers management fees on an actual cost basis, in accordance with its Management Services Agreement. The management fee charged to the overall insurance group in the holding company system included a profit margin of approximately 2.6%. As all of the expenses of the companies in the reinsurance pool are ceded to Star and then retroceded back to the companies from Star, Savers was indirectly charged 24.3% of this profit margin. The Company did not have a clear audit trail to support the amount of costs allocated, therefore, the Examiners were unable to determine the reasonableness of the costs allocated. It was recommended the Company ensure the amount charged for management fees complied with its agreement and the requirements of Missouri regulation 20 CSR 100-11.130 (Materiality, Fairness and Reasonableness of Certain Affiliated Transactions), and that the Company maintain documentation which complied with the cited regulation to support the management fee charged.

Response: It is agreed that the language in the Management Services Agreement needs to be kept current with the Company's business practices and that a clear audit trail of any intercompany transactions is needed. A more detailed method of the cost allocation was submitted to the DIFP as part of a Form D filing.

Current Finding: The Company was found to be in compliance with its Management Services Agreement and Missouri statutes and regulations in regard to management fees paid.

HISTORY

General

Savers Property and Casualty Insurance Company was incorporated on December 17, 1985 as a stock casualty insurance company. It was granted authority pursuant to the provisions of Missouri Law at Chapter 379 (Insurance other than life) to commence the business of insurance effective January 28, 1986.

Savers was owned by Franklin Insurance Holdings, Inc. prior to being sold to Star Insurance Company in 1990. Star Insurance Company is a Michigan domiciled property and casualty insurer which is wholly owned by the Meadowbrook Insurance Group, Inc. (MIGI).

Capital Stock

Savers Property and Casualty Insurance Company is one hundred percent (100%) owned by Star Insurance Company. As of December 31, 2007, the Company had authority to issue 2.5 million shares of \$1 par value common stock. All 2.5 million shares were issued and outstanding for a balance of \$2.5 million in the Company's capital stock account as of December 31, 2007.

Dividends

No dividends were declared or paid during the period under examination. However an ordinary dividend was paid in the amount of \$5,460,307 on July 24, 2008.

Management

The management of the Company is vested in a Board of Directors that is elected by the sole shareholder. Savers' Articles of Incorporation specify that the total number of directors shall be nine. The Directors of Savers Property and Casualty Insurance Company elected and serving as of December 31, 2007 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Kenn R. Allen South Lyon, Michigan	President Meadowbrook Inc., Insurance Agencies
Robert S. Cubbin Birmingham, Michigan	Chairman and Executive Vice President Meadowbrook Insurance Group, Inc.
Steven C. Divine Northville, Michigan	Vice President and Controller Meadowbrook Insurance Group, Inc.
Randolph W. Fort Northville, Michigan	Senior Vice President Meadowbrook Insurance Group, Inc.
Archie S. McIntyre Shelby Township, Michigan	Senior Vice President Meadowbrook Insurance Group, Inc.
Merton J. Segal Bloomfield Hills, Michigan	Director Meadowbrook Insurance Group, Inc.
Karen M. Spaun Farmington Hills, Michigan	Vice President and Treasurer Meadowbrook Insurance Group, Inc.
Joseph E. Mattingly Livonia, Michigan	Senior Vice President Meadowbrook Insurance Group, Inc.
Angelo L. Williams Southfield, Michigan	Vice President Meadowbrook Insurance Group, Inc.

The Savers' Board of Directors had no active committees. Committees of the direct and ultimate parent of Savers were utilized with their actions being reviewed and ratified by the Savers' Board of Directors.

The Company's Bylaws stipulate that the Board of Directors shall elect a President, one or more Vice Presidents, a Secretary, a Treasurer, one or more Assistant Secretaries, and one or more Assistant Treasurers as officers of the Company. The officers elected and serving as of December 31, 2007 were as follows:

<u>Name</u>	<u>Title</u>
Joseph E. Mattingly	President
Robert S. Cubbin	Chairman and Chief Executive Officer
Michael G. Costello	Senior VP, General Counsel, & Secretary
Karen M. Spaun	Vice President
Randolph W. Fort	Vice President
Archie S. McIntyre	Vice President
Steven C. Divine	Vice President and Treasurer
Kenn R. Allen	Vice President
Angelo L. Williams	Vice President
Josephine D. Duco	Asst. Vice President and Asst. Treasurer
Kelly A. Freeman	Asst. Vice President and Asst. Secretary

Conflict of Interest

The Company has procedures which require that all officers and directors complete a conflict of interest statement annually. Signed statements of officers and directors were reviewed for the period under examination and no material conflicts were indicated.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. No amendments were made to either document during the period under examination.

The minutes associated with the annual and special meetings and actions of the Shareholder and Board of Directors were also reviewed for the period under examination and periods subsequent to the examination date. The corporate records appear to adequately document the major transactions of the Company.

Acquisitions, Mergers and Major Corporate Events

In February 2008, the ultimate parent company, Meadowbrook Insurance Group, Inc. executed a definitive merger agreement with ProCentury Corporation. The insurance companies obtained through this merger were to be incorporated into the Inter-Company Pooling Plan starting January 1, 2009. See the Subsequent Events section of this report for more details.

Surplus Debentures

No surplus debentures were issued or outstanding during the period under examination.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

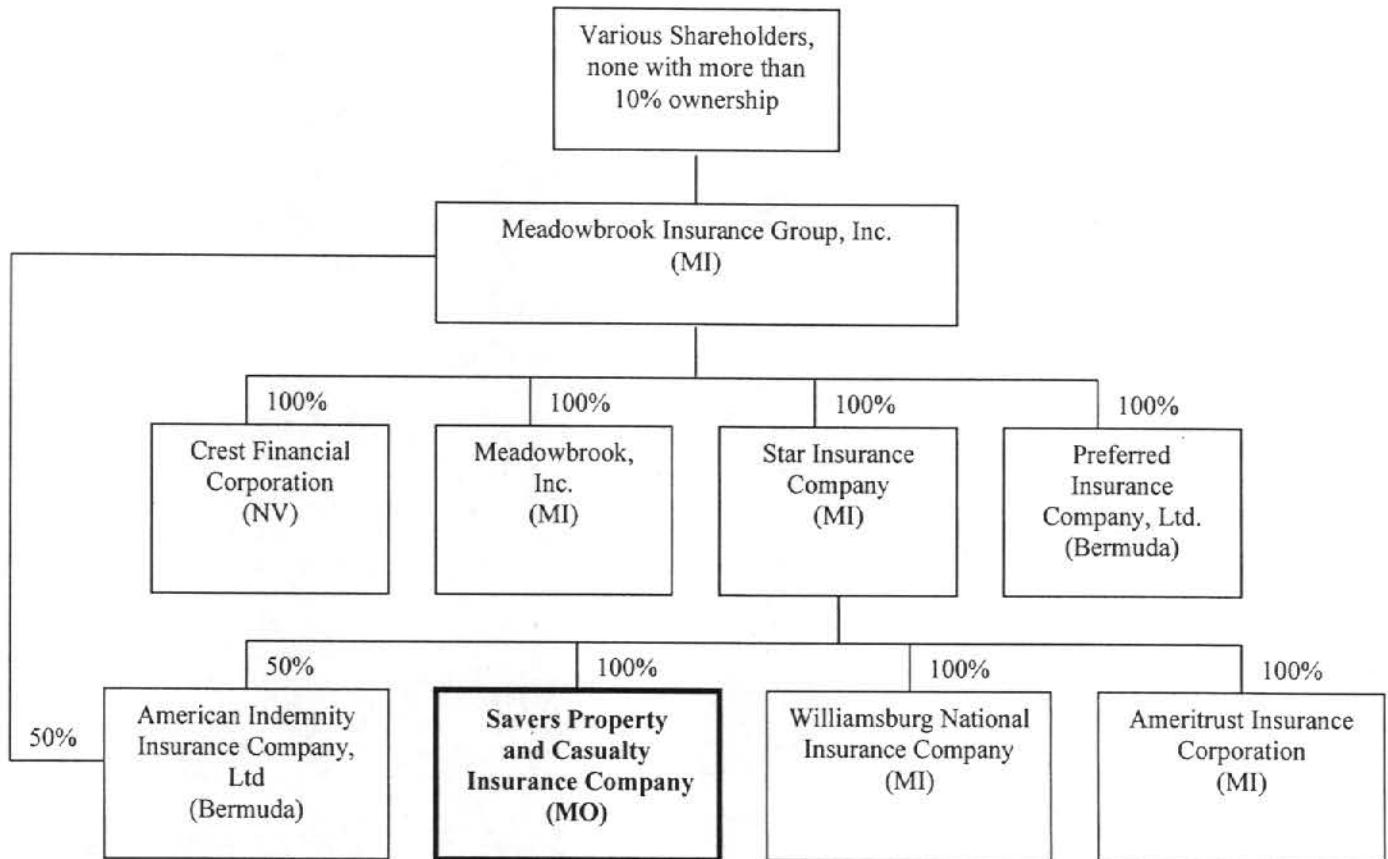
Savers Property and Casualty Insurance Company is wholly owned by Star Insurance Company and is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). Star Insurance Company, in turn, is a wholly owned subsidiary of Meadowbrook Insurance Group, Inc., an insurance holding company.

MIGI is a publicly traded entity listed on the New York Stock Exchange. No one shareholder owns ten percent (10%) or more of the issued and outstanding stock of MIGI. The following institutional entities own between five and ten percent of issued and outstanding stock of MIGI: Dimensional Fund Advisors, Inc., 7.7%; Columbia Wanger Asset Management LP, 6.5%; and Royce and Associates, LLC, 5.7%. Officers and Directors of the MIGI collectively own a total of 7.8% of the Company stock, with Merton J. Segal owning the largest percentage of 4.3%.

An Insurance Holding Company System Registration Statement was filed by MIGI on behalf of Savers and the other insurance entities within the holding company system for each year under examination.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group, including Savers as of December 31, 2007:



Intercompany Transactions

The Company has entered into various intercompany agreements including:

1. Type: Management Services Agreement
- Parties: Meadowbrook, Inc. (Manager) and Savers Property & Casualty Insurance Company
- Effective: January 1, 2003 superseded by Agreement effective October 1, 2007
- Terms: The Manager will perform for the Company the day-to-day operations by providing various administrative and management services. These services include, but are not limited to, accounting and actuarial services, claim and benefit payments, customer services, marketing and sales services, information technology services, legal and government relation services, broker and agent services, and general office services. The Manager may engage a third-party, agents or subsidiaries to perform certain functions under this agreement. The Company shall have the authority to approve or terminate the third-party as well as approval of commission rates.

To the extent the Manager delegates functions to a third-party, the fee for services shall be paid by the Manager. In consideration for the services provided, the Company shall pay the Manager a fee based on actual costs without a profit factor built into costs. In no event is the amount charged to exceed the Company's direct cost, if it were performing the services itself. Indirect and shared expenses will be allocated to the Company in accordance with a method of cost allocation in conformity with SSAP No. 70.

2. Type: Agency Agreement

Parties: Meadowbrook, Inc. and its agency affiliates (collectively referred to as 'Agent') and Star Insurance Company and its insurance subsidiaries including Savers (collectively referred to as 'Company').

Effective: January 1, 2003

Terms: Agent is appointed and provided limited authority to solicit and secure applications for the Company. Agent is granted binding authority, pursuant to Company's underwriting guidelines, policies, bulletins, or other documents. Agent shall submit on the 10th of each month an account current indicating the prior month's premium and taxes/surcharges due. Agent is responsible for billing and collecting from the policyholder, all deposit, installment, endorsement and audit premiums and remitting net of commission to the Company by the 15th day of the following month. Compensation to Agent will be solely as set out in the commission schedule attached to the agreement.
3. Type: Tax Allocation Agreement

Parties: Meadowbrook Insurance Group, Inc. and its subsidiaries

Effective: December 31, 1985

Terms: Each entity will calculate its tax liability on a stand-alone basis and pay the amount to MIGI. Thereafter, all settlements will be made in thirty (30) days, unless MIGI is receiving a refund. In a refund situation, the settlements will be made within thirty (30) days of receipt of refund.
4. Type: Loan Agreement

Parties: Meadowbrook Insurance Group, Inc., Star and its subsidiaries, including Savers (collectively the "Parties" and individually the 'Party') and Meadowbrook, Inc.

Effective: September 1, 2004

Terms: Meadowbrook is authorized to advance monies (Advances) in Meadowbrook's control, from any of the Parties (Creditor) to any of the other Parties (Debtor). Meadowbrook is authorized to direct any of the Parties, as Debtor, to receive advances from another of the Parties acting as Creditor. Parties recognize that from time to time one Party may receive payment from or make payments to third parties on behalf of itself and one or more of the other Parties. Payments or advances for third parties shall not exceed the amounts which would have been paid to or received from the third party had the transaction occurred directly. Payments or advances in aggregate shall not exceed the lesser of three percent (3%) of either the Creditor's or Debtor's admitted assets or twenty-five percent (25%) of either the Creditor's or Debtor's policyholder surplus as of the preceding December 31. Meadowbrook shall maintain a written record of all advances and payments made pursuant to this agreement. The interest rate shall be a reasonable rate and be determined by Meadowbrook.

5. Type: Inter-Company Reinsurance Agreement

Parties: Star Insurance Company and subsidiaries, Ameritrust Insurance Corporation, Savers, and Williamsburg National Insurance Company (Affiliates)

Effective: January 1, 2006, supersedes Agreement effective January 1, 2005

Terms: Affiliates agree to cede to Star and Star agrees to reinsure 100% of the liabilities and expenses existing as of January 1, 2005 relating to insurance and reinsurance policies issued by or on behalf of the Affiliates with outstanding liabilities as of the effective date and those assumed thereafter. All reinsurance to be ceded to excess of loss and quota share reinsurers, excluding parties hereto, shall be ceded in the name of Star. Star assumes all premium responsibilities associated with any and all unaffiliated reinsurance agreements in effect January 1, 2005 with Affiliates. Said Parties agree to assign all reinsurance recoverables under said unaffiliated reinsurance agreements to Star. The Affiliates assign to Star its agents balances and uncollected premium and any other underwriting assets and related liabilities. Star assigns premium and underwriting expenses and other underwriting assets and related liabilities per Affiliates respective participation percentages. The participation percentage allocations are: Star 56.6%, Savers 22.0%, Williamsburg 11.4% and Ameritrust 10.0%. The Agreement does not include liabilities for federal income taxes, liabilities incurred in connection with investment transactions, stockholder dividends, and other liabilities not incurred in connection with underwriting and claim operations.

The following is a table of the fees paid under the above described intercompany agreements.

	<u>2007</u>	<u>2006</u>
Management Service Agreement Fees		
Paid to MIG	\$ 5,015,986	\$ 4,975,494
Pooling Agreement		
Paid to Star	2,792,775	2,524,715
Tax Allocation Agreement		
Paid to MIGI	2,371,000	1,513,555
Agency Agreement		
Paid to MIG	<u>3,806</u>	<u>4,843</u>
Totals	<u>\$10,183,567</u>	<u>\$ 9,018,607</u>

FIDELITY BOND AND OTHER INSURANCE

Savers is a named insured along with other insurance affiliates on a Crime Policy purchased by Meadowbrook Insurance Group, Inc. the ultimate parent. The crime policy provides coverage with a liability limit of \$2 million and a \$25,000 deductible. According to the NAIC guidelines, this coverage exceeds the suggested minimum fidelity coverage of \$1.5 million.

The Company is also a named insured on various policies purchased by Meadowbrook Insurance Group, Inc. These policies include Commercial Package, Automobile Coverage, Workers Compensation, Umbrella Liability, Foreign Commercial Package, Network Security, Errors and Omissions, Directors and Officers Liability, and Fiduciary Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Savers Property and Casualty Insurance Company has no direct employees. All services are provided to the Company by its affiliate Meadowbrook, Inc. in accordance with the provisions of a Management Services Agreement that is explained in greater detail in the Intercompany Transactions section of this report.

Meadowbrook, Inc. provides a variety of standard benefits to its employees, which include, but are not limited to, health coverage, life insurance, short and long-term disability insurance, vacation and sick leave, tuition reimbursement and a 401(k) profit sharing plan. The expenses for these benefits are charged to Savers through intercompany service fees.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2007, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Insurance other than life-security deposits). The funds on deposit as of December 31, 2007 were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Bonds	\$525,000	\$554,201	\$538,944
MO Revenue Bond	<u>2,115,000</u>	<u>2,396,295</u>	<u>2,295,898</u>
Totals	<u>\$ 2,640,000</u>	<u>\$ 2,950,496</u>	<u>\$ 2,834,842</u>

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2007 were as follows:

<u>State or Territory</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Stmt Value</u>
Arkansas	Revenue Bonds	\$ 200,000	\$ 202,984	\$ 203,034
Illinois	U.S. Treasury Note	200,000	209,140	202,429
Louisiana	U.S. Treasury Note	100,000	104,570	101,214
Massachusetts	Various	200,000	212,632	210,674
New Hampshire	Revenue Bond	500,000	514,480	517,429
New Jersey	Various	300,000	306,830	301,555
New Mexico	Revenue Bond	110,000	110,373	110,746
New York	Various	2,600,000	2,807,700	2,806,742
Oklahoma	Revenue Bond	200,000	201,644	202,145
South Carolina	Revenue Bonds	<u>325,000</u>	<u>351,406</u>	<u>329,927</u>
Totals		<u>\$ 4,735,000</u>	<u>\$ 5,021,759</u>	<u>\$ 4,985,895</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

Savers Property and Casualty Insurance Company is licensed by the State of Missouri under Chapter 379 RSMo (Insurance other than life) to write the business of property and casualty insurance.

As of December 31, 2007, the Company was also licensed in the states of Illinois, Kansas, Maine, and Massachusetts. In addition, the Company operates on a surplus lines or non-admitted basis in the District of Columbia and each state except in those jurisdictions where full licensure has been obtained.

The Company has specialized in writing insurance programs for professional trade groups including: appraisers, educators, municipalities, marketing centers, lawyers, and livestock associations. The Company's direct lines of business include fire, allied lines, commercial multiple peril, inland marine, medical malpractice, workers' compensation, other liability, products liability, commercial auto liability, and auto physical damage. As of December 31, 2007, commercial multiple peril, workers compensation, other liability, commercial auto, auto physical damage and medical malpractice lines represented approximately 99.8% of aggregate direct written premiums.

The Company has numerous agency agreements with independent agencies and brokers to produce business, including an agreement that names several affiliates as agents. In 2007, approximately 95% of the Company's business was produced by three unaffiliated agencies, Missouri Rural Services Corporation (MRSC) 66.8%, Forrest T. Jones 14.7% and Renaissance Insurance Agency (Renaissance) 13.5%.

MRSC and Renaissance write the majority of the Company's workers' compensation programs and Forrest T. Jones writes the majority of the Company's professional educators' liability program. In 2007, the business of the Company was concentrated in the states of Missouri and Massachusetts, which accounted for approximately 67.4% and 13.1% of direct written premiums, respectively.

Policy Forms and Underwriting, Advertising & Sales Material, Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff which performs a review of these issues and generates a separate market conduct report.

The last Market Conduct Examination [Report #MO268-M12] dated July 21, 2008 reviewed the period from January 1, 2005 to June 30, 2008. No findings were noted which would have a material impact on the financial condition of the Company.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination are as follows:

	<u>2007</u>	<u>2006</u>
Direct premiums written	\$ 32,795,081	\$ 33,950,307
Reinsurance assumed		
Affiliates	61,646,367	57,786,652
Non-affiliates	780,772	1,069,193
Reinsurance ceded		
Affiliates	(33,575,853)	(35,019,500)
Non-affiliates	-	-
Net premiums written	<u>\$ 61,646,367</u>	<u>\$ 57,786,652</u>

Pooling

As stated in the Intercompany Transactions section of this report, the Company entered into an Inter-Company Reinsurance Agreement effective January 1, 2006 with its parent, Star, and affiliates, Ameritrust and Williamsburg. Per the Agreement, each subsidiary is required to cede 100% of its direct and assumed business to Star, the lead insurer in the intercompany pool. Under the pooling agreement, the participants share all underwriting liabilities and income and expenses relating to all insurance and reinsurance policies issued by or on behalf of the affiliated Companies effective January 1, 2006. Pooled accounts do not include investment operations, dividends to stockholders, federal income tax liabilities and other liabilities not incurred in connection with underwriting and claim operations.

Star Insurance Company, as lead insurer, is responsible for securing external reinsurance on behalf of the entire pool and redistributing the net retained pooled business to each participant in accordance with the percentages stated in the Inter-Company Reinsurance Agreement.

As a result of the merger described in the Subsequent Events section of this report, effective January 1, 2009, a new agreement was executed which changes the participation percentages and the number of affiliated companies in the pool. Per the new agreement, in addition to the original participants two new participants were added to the pool: Century Surety Company (Century), an Ohio domiciled corporation and ProCentury Insurance Company (PROS), a Texas domiciled corporation. The participation percentages effective January 1, 2009 for new and existing business as well as loss development are as follows:

<u>Company</u>	<u>Respective Percentage</u>
Star	35.8%
Century	29.1%
Savers	13.0%
PROS	9.4%
Williamsburg	6.7%
Ameritrust	5.9%

Assumed

The Company participates in the Missouri Fair Plan and National Workers' Compensation Reinsurance Pool, mandatory pool plans. The Company also assumes business from its parent, Star Insurance Company, pursuant to the above described Inter-Company Reinsurance Agreement.

Ceded

The Company cedes 100% of its direct and assumed business to its parent, Star Insurance Company, pursuant to the above described Inter-Company Reinsurance Agreement.

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The Company's financial statements were audited by the CPA firm, Ernest and Young, LLP of Detroit, Michigan for the years 2006 and 2007 on a consolidated basis for Star Insurance Company and its affiliates.

Loss reserves of the Company were reviewed and certified for all years under examination by Christopher Tait, FCAS, MAAA of Milliman, Inc. of Wayne, Pennsylvania.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the year ending December 31, 2007. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There were differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Assets

	<u>ASSETS</u>	<u>ASSETS NOT ADMITTED</u>	<u>NET ADMITTED ASSETS</u>
Bonds	\$133,297,982	\$ -	\$133,297,982
Cash, cash equivalents, and short-term investments	986,903	-	986,903
Investment income due and accrued	1,395,543	-	1,395,543
Uncollected premiums and agents' balances in course of collection	12,726,579	89,755	12,636,824
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	3,216,873	38,346	3,178,527
Amounts recoverable from reinsurers	5,439,157	-	5,439,157
Net deferred tax asset	5,444,399	1,846,618	3,597,781
Guaranty funds receivable or on deposit	29,304	-	29,304
Receivable from parent, subsidiaries and affiliates	30,301	-	30,301
Aggregate write-ins for other assets	<u>14,491</u>	<u>201</u>	<u>13,291</u>
TOTAL ASSETS	<u>\$162,581,533</u>	<u>\$1,975,920</u>	<u>\$160,605,613</u>

Liabilities, Surplus and Other Funds

Losses	\$60,475,385
Reinsurance payable on paid loss and loss adjustment expenses	7,142,142
Loss adjustment expenses	14,480,361
Commissions payable, contingent commissions and other similar charges	1,029,878
Other expenses (excluding taxes, licenses and fees)	194,701
Taxes, licenses and fees (excluding federal and foreign income taxes)	260,423
Current federal and foreign income taxes	784,907
Unearned premiums	29,955,986
Ceded reinsurance premiums payable (net of ceding commissions)	4,602,076
Payable to parent, subsidiaries and affiliates	36,953
Aggregate write-ins for liabilities	<u>10,090</u>
Total Liabilities	\$118,972,903
Common capital stock	2,500,000
Gross paid in and contributed surplus	17,568,926
Unassigned funds (surplus)	<u>21,563,784</u>
Surplus as regards policyholders	<u>\$41,632,710</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$160,605,613</u>

Statement of Income

Underwriting Income

Premiums earned		\$59,003,297
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Deductions

Losses incurred	\$28,183,325	
Loss expenses incurred	7,865,328	
Other underwriting expenses incurred	<u>20,155,993</u>	
Total underwriting deductions		<u>56,204,647</u>

Net underwriting gain/(loss)		<u>2,798,650</u>
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Investment Income

Net investment income earned	5,267,877	
Net realized capital gains or (losses)	<u>(52,395)</u>	
Net investment gain or (loss)		5,215,482

Other Income

Net (loss) from agents' or premium balances charged off	(188,609)	
Finance and service charges not included in premiums	1,645	
Aggregate write-ins for miscellaneous income	<u>4,140</u>	
Total other income		<u>(182,825)</u>

Net income before federal income taxes		7,831,307
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Federal and foreign income taxes incurred		<u>2,371,000</u>
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Net income		<u>\$ 5,460,307</u>
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$35,914,127
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Net income	\$5,460,307	
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Change in net deferred income tax	342,810	
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Change in nonadmitted assets	(84,534)	
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Change in surplus as regards policyholders for the year		<u>5,718,583</u>
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Surplus as regards policyholders, December 31, 2007		<u>\$41,632,710</u>
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NOTES TO THE FINANCIAL STATEMENTS

--None--

EXAMINATION CHANGES

--None--

GENERAL COMMENTS AND/OR RECOMMENDATIONS

--None--

SUBSEQUENT EVENTS

As noted in the History section of this report, the Company paid an ordinary dividend to its parent Company, Star Insurance Company, in the amount of \$5,460,307 on July 24, 2008.

On February 20, 2008, Meadowbrook Insurance Group, Inc. executed a merger agreement with ProCentury Corporation (ProCentury) for a transaction valued at approximately \$272 million to be paid in cash and stock to ProCentury's shareholders. The merger was finalized on July 31, 2008. The merger was to expand and complement MIGI's specialty lines capabilities with ProCentury's insurance professionals and product expertise in the excess and surplus lines market. A Form D was filed with the Missouri Department of Insurance, Financial Institutions and Professional Registration on December 2, 2008 requesting approval of the new Inter-Company Reinsurance Agreement to be effective January 1, 2009. The agreement will include the two insurance companies acquired through the merger, Century Surety Company, an Ohio corporation, and ProCentury Insurance Company, a Texas corporation.

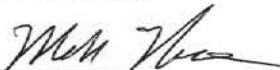
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Savers Property and Casualty Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CPA, CFE examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

VERIFICATION

State of Missouri)
County of Jackson)

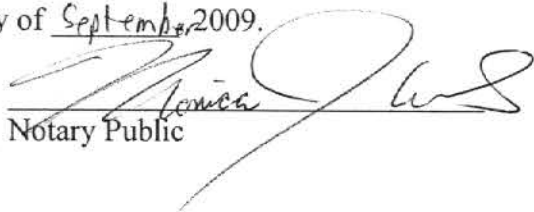
I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Mark Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 14th day of September, 2009.

My commission expires: March 10, 2013



Notary Public



MONICA J. CURFILS
My Commission Expires
March 10, 2013
Jackson County
Commission #09679768

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration